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24 February 1982

MEMORANDUM FOR: Special Assistant to the Director for  
Interdepartmental Affairs

FROM: Robert M. Gates  
Deputy Director for Intelligence

SUBJECT: Cabinet Meeting on 25 February --  
International Implications of  
US Natural Gas Decontrol

1. Natural gas deregulation has several international implications. The areas most likely to be affected include:

- o Natural gas imports
- o Oil imports
- o Foreign competitive position of US industries using natural gas.

The exact nature of the consequences will depend on the price response to decontrol. A consensus seems to be emerging that prices would initially increase but would then fall back toward their original levels. How long this process would take is uncertain.

2. Natural Gas Imports: The most significant impact of natural gas deregulation would be on natural gas imports. Canada, Mexico and Algeria would be the three foreign countries directly affected.

- o Canada -- US gas imports from Canada average 2 billion cubic feet per day (cfd) at \$4.94 per thousand cubic feet.
- o Mexico -- US firms currently buy up to 300 million cfd from Mexico at \$4.94 per thousand cubic feet.
- o Algeria -- LNG imports from Algeria currently total 120 million cfd at about \$5 per thousand cubic feet.

3. If domestic gas prices were deregulated now, additional gas could be expected to come on stream and would be likely to back out some imports not already contracted for. In the longer term, deregulation would probably reduce the size of the US market for imported gas.

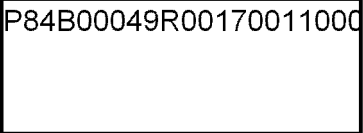
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- o A decline in US gas import demand could free up Algerian supplies for West European consumers
  - o To the extent this happens, US gas decontrol could diminish West European interest in going ahead with a second Soviet gas pipeline (Yamal II).

Gas deregulation could also reduce the need for the Alaskan natural gas pipeline by increasing production in the lower 48 states.


4. Oil Imports: The impact of natural gas deregulation on oil imports is unclear. Several studies examining ways of reducing US oil import vulnerability have reached conflicting conclusions because of uncertainty about consumer reaction, particularly in the industrial and utility sectors. DOE has estimated that immediate gas deregulation could reduce oil imports 300,000 - 600,000 b/d by 1985. The American Gas Association estimated that decontrol in 1981 would increase oil imports by as much as 800,000 b/d in 1982 and 1983.

5. Foreign Competitive Position: An increase in natural gas prices would reduce the competitive position of US industries such as petrochemicals, which rely on gas as a fuel and/or feedstock. As a result, West European reaction to US decontrol of natural gas would be highly positive. The West Europeans have long complained that subsidized US gas prices have given Americans a competitive advantage and have led to increased demand for gas. The British in particular have called on the United States to honor promises to decontrol gas and link the price to oil. They would also like the Canadians to raise the price of their domestic gas to world levels. Most Europeans believe that a US move to decontrol gas is long overdue.



Robert M. Gates

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